

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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In the Matter of

Simplification of the Depreciation Prescription Process

CC Docket No. 92-296

GTE's COMMENTS

**GTE Service Corporation and
its affiliated domestic
telephone operating companies**

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SUMMARY

1. GTE endorses the USTA submission.
2. GTE suggests ranges can be established for more accounts than those proposed in the OIC.
3. The difficulty and expense that would be incurred in creating and analyzing rate category data is not justified by any supposed improvement in precision and increased accuracy. Carriers should not be precluded from realizing the benefits of streamlined procedures and processes simply because they opt not to request rates at a rate category level. The Commission should adopt ranges at the account level, in addition to the rate category level.
4. In applying the FCC's simplification policy to the setting of ranges, the Commission must consider forward-looking factors.

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GTE's COMMENTS

GTE Service Corporation and its affiliated domestic telephone operating companies ("GTE") offer their comments in response to the Commission's Order Inviting Comments ("OIC")¹ on selected accounts and proposed projection life and future net salvage ranges for use by Local Exchange Carriers ("LECs" or "exchange carriers") regulated under its price cap regulatory scheme.

BACKGROUND

On September 23, 1993, the Commission adopted a streamlined depreciation prescription process for exchange carriers regulated under its price cap scheme. This process change was deemed warranted in order to recognize the regulatory, technological, and market changes that price cap LECs currently experience. The Basic Factor Range Option (one of the four proposed options) was adopted and the Commission Staff was chartered to establish ranges of projection life and future net salvage factors for as many plant accounts as feasible, beginning in 1994.² The OIC

¹ Simplification of the Depreciation Prescription Process, CC Docket 92-296 ("D.92-296"), Order Inviting Comments, FCC 93-492 (released November 12, 1993).

² Simplification of the Depreciation Prescription Process, D.92-296, Report and Order ("*Depreciation Simplification Order*"), FCC 93-452 (released October 20, 1993) at paragraph 93.

invites comment on the accounts selected as well as the proposed projection life and future net salvage ranges set forth in the Appendix section of the OIC.

DISCUSSION

1. GTE endorses the USTA submission.

In comments filed concurrently herewith, the United States Telephone Association ("USTA") asks the Commission to develop its life and salvage ranges in a forward-looking manner, proposes treatment different than that described in the OIC for four range accounts, and recommends that ranges should be proposed for all accounts at this time. USTA submits supporting material for its proposals in the form of a study prepared by Technology Futures, Inc.³ USTA presents persuasive arguments to support their positions on these issues and GTE supports the comments in their entirety.

2. GTE believes ranges can be established for more accounts than those accounts proposed in the OIC.

The OIC (at paragraph 4) concludes ranges should be established for all plant accounts if feasible. However, it suggests technical problems make it difficult to establish ranges for certain accounts; it therefore does not propose ranges for nine complete and three partial accounts. Ranges are proposed (at paragraph 5) for twenty-two plant categories, mostly at the plant account level.

GTE believes the twenty-two categories proposed are an excellent start. But the Commission has not availed itself of all reasonably available opportunities to establish ranges. With nothing more than a reference to "technical problems [that] make it difficult", the OIC (at paragraph 4) foregoes setting ranges and realizing immediate

³ Lawrence K. Vanston, Ph.D., *Telecommunications Equipment Depreciation - Looking to the Future*, TECHNOLOGY FUTURES, INC., December 15, 1993.

simplification benefits for several categories of plant (accounts such as Buildings, Poles, and Aerial Wire). For these accounts, GTE believes ranges could and should be developed and implemented at this time.

At the very most, in GTE's view, an argument can be made that certain technology-sensitive accounts (*i.e.*, Digital Switching and Metallic Cable) could be excluded from the setting of ranges – but it is entirely feasible to set ranges for all of the other Part 32 accounts. The accounts not addressed in the OIC are not different in relevant respects from the categories proposed in the OIC. Moreover, in terms of "the basic factors underlying currently prescribed rates" (OIC at paragraph 7), GTE suggests there is ample similarity among price cap carriers to permit the prescription of ranges. For these accounts, ranges could be set with little or no detailed analysis. Further, the self-correcting aspect of the remaining life methodology would permit the Commission to exercise continuing effective oversight of depreciation rates.

In summary: GTE suggests ranges can be established for more accounts than those proposed in the OIC.

3. Exchange carriers should be able to make use of streamlined procedures through the use of either account or rate category ranges without having to pay a penalty.

For ranges proposed at a rate category (non-plant account) level, the OIC (at paragraph 6) makes exchange carrier simplification contingent on depreciation rates being requested at the same rate category level. GTE urges the Commission not to attach such conditions because it can strip away the benefits of simplification and indeed create greater burdens wholly unintended by the Commission.

The OIC says (at paragraph 5) the Commission currently prescribes rates at this level for some exchange carriers, when they so request, because it would enable carriers to simplify their analyses and it results in a more accurate estimate for the account as a whole. GTE disagrees that prescribing rates at this level would always

enable carriers to simplify their analysis; there are times when analysis would be made more difficult. If the intent is to permit carriers to simplify, surely the option can be left to the carrier rather than being attached without justification to the exercise of the simplification option.

GTE believes the result of making the use of streamlined procedures contingent on an exchange carrier's incurring the increased burden of developing and maintaining records at a rate category level is contrary to the Commission's articulated policy favoring simplification. This procedure creates the illusion of providing more precision and accuracy, but not the reality. Where the OIC proposes ranges at a rate category level, it should not make this simplification dependent on adopting a counter-simplification procedure, but should rather propose ranges at an account level. In this way, carriers would be afforded the opportunity to make use of streamlined procedures through the use of either range and without having to pay a penalty.

In summary: The difficulty and expense that would be incurred in creating and analyzing rate category data is not justified by any supposed improvement in precision and increased accuracy. Carriers should not be precluded from realizing the benefits of streamlined procedures and processes simply because they opt not to request rates at a rate category level. The Commission should adopt ranges at the account level, in addition to the rate category level.

4. In applying the Commission's simplification policy to the setting of ranges, forward-looking factors must be considered.

The OIC (at paragraph 7) describes specific data that, under the *Depreciation Simplification Order*,⁴ should be considered in establishing life and salvage ranges.⁵

⁴ *Depreciation Simplification Order* at paragraph 61.

These data are considered in light of the Commission's obligation to prescribe reasonable depreciation rates and, specifically, to permit the FCC to make the ranges wide enough to accommodate a significant number of exchange carriers while not being so wide that the Commission is unable to exercise effective oversight of depreciation rates.⁶

The OIC (at paragraph 7) reflects an intent to go beyond the limits of the data listed *supra*.⁷ But then the OIC fails to give sufficient consideration to data that are not as historically oriented, *i.e.*, based solely on already prescribed parameters, as those described in the OIC. The OIC does not adequately address forward-looking factors such as technological obsolescence and market changes because of increased competition.

Exchange carrier plant is undergoing rapid technological change and is being challenged by increasing market competition. Historical mortality analysis is flawed and represents an inadequate method to forecast depreciation rates when technological obsolescence is the major driver for plant retirements.

Methods of technology forecasting exist and are currently available to forecast equipment lives. Such analysis should be used in conjunction with traditional depreciation analysis techniques to develop survivor curves that capture the effect of technological change in forecasted equipment lives. The use of current prescribed factors as the basis for developing the proposed ranges does not capture the effect of

⁵ The data include: (1) a range of +/- one standard deviation around an industry-wide mean of basic factors underlying currently prescribed rates; (2) the number of carriers encompassed by the range; and (3) any trends of LEC plant retirement and modernization plans that are not fully reflected in current basic factors.

⁶ OIC at paragraph 7 quoting the *Depreciation Simplification Order* at paragraph 61.

⁷ "[I]n setting ranges, we considered both the specific data enumerated in the *Depreciation Simplification Order* and our obligation to prescribe reasonable depreciation rates." OIC at paragraph 7.

technological change. As recently stressed by Commissioner Barrett, this philosophy must be reexamined in the current environment and as a result of the Commission's endogenous treatment of depreciation expense under price caps.⁸

GTE maintains a future-oriented, technology-forecasting approach is the only way to insure economic recovery and proper depreciation levels. It is highly unlikely that local exchange modernization efforts will produce retirements of technology-sensitive plant, *i.e.*, copper cable, circuit equipment, and digital switching, which reflect the true rate of depreciation. Waiting to prescribe shorter lives until supportive retirement patterns emerge will only insure the recovery of the assets WILL NOT occur, since the competitive market will have the additive effect of preventing the generation of revenue necessary for recovery.

As GTE has stated in prior proceedings⁹, the Commission could better address this issue in its range proposals if it were to base them on factors proposed by exchange carriers rather than prescribed factors. The use of current prescribed factors unreasonably restricts the width of the ranges and allows current rates — some of them acknowledged to be of questionable adequacy — to dictate future results.

Ranges based on carrier-proposed factors would be more forward-looking in nature and could be updated or revised by the Commission through the use of

⁸ Commissioner Barrett has recently said: "I write separately to point out that consistency and equity dictate that endogenous treatment of depreciation rates changes be accompanied by the grant to carriers — in particular local exchange carriers (LECs) regulated under price caps — of as much control over depreciation rates and expenses as is feasible, consistent with the prevailing competitive and regulatory circumstances. In my view, this item highlights the need for the Commission to be aggressive in pursuing reform of its depreciation practices and to ensure that those practices not lag significant market and technological developments." In the Matter of Petition for Waiver of the Commission's Rules to recover Network Depreciation Costs, Order, FCC 93-522 (released December 8, 1993).

⁹ GTE Reply Comments in D.92-296, filed April 13, 1993, at 16-17.

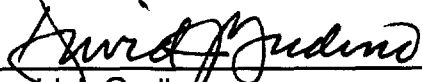
combined independent outside analyses. These might be analyses obtained from accounting firms, technology forecasting services, telecommunications equipment manufacturers, and affected exchange carriers.

In summary: In applying the FCC's simplification policy to the setting of ranges, the Commission must consider forward-looking factors.

Respectfully submitted,

GTE Service Corporation and
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Certificate of Service

I, Ann D. Berkowitz, hereby certify that copies of the foregoing "GTE's Comments" have been mailed by first class United States mail, postage prepaid, on the 17th day of December, 1993 to all parties of record.



Ann D. Berkowitz